

**MINUTES OF THE POLICE PENSION BOARD
REGULAR QUARTERLY MEETING
WEDNESDAY, OCTOBER 28, 2009**

CALL TO ORDER:

President Helgerson called the meeting to order at 5:33 pm.

ROLL CALL:

Present: President Stan Helgerson, Vice-President David Comstock, Secretary Andrew Doles. A quorum was present. Absent: Assistant Dennis Walker, Trustee Ken Azarela, and Cary Collins. Village Treasurer Jack Walde and Recording Secretary Corinne Gerstmayr were also present. Andrew Doles exited the meeting at 5:50 pm and returned at 5:52 pm.

ADOPT AGENDA:

A motion was made by Comstock and seconded by Doles to adopt the agenda as presented. Voice vote: unanimous ayes – motion carried.

APPROVAL OF MINUTES:

The minutes of the regular meeting held July 28, 2009 were presented. There were no questions or changes to the minutes.

A motion was made by Doles and seconded by Comstock to approve the minutes of the July 28, 2009 meeting. Voice vote: unanimous ayes – motion carried.

ACTUARIAL REPORT:

Helgerson commented that the calculated return was -9.16% which actually in that environment wasn't too bad. There are much larger funds losing closer to 20%. We managed through that part of it pretty well. The item that concerns Helgerson on the actuary is our funding level due to the loss on the investments was reduced to 45.3%. That by anybody's standards is now low. Most funds are in the low 60's and go a little lower when the actuary reports kick in. It is too low. Helgerson suggested to Walde that we meet with the Village Manager to talk about ways to remedy this. Helgerson is not concerned about the Village funding the Pension, since by law this is required. His concern is as the time period gets shorter the village contribution could become unmanageable. It may spike. He thinks it is in their best interest to do some planning and try to remedy it. If they opt to do nothing the pension fund is still going to get 100% funding by 2033.

Helgerson also pointed out that the unfunded liability has increased over \$10 million. The significance is actuarially they are paying 7% interest on the \$10 million. They need to be looking at other remedies to try and knock the \$10 million level down. As that amount gets reduced, the Pension Fund level increases. 7% money is expensive at the moment. Doles asked how the underfunding could be corrected. Helgerson stated that the Village could contribute

more than the actuarial request or they could sell debt of which there is interest rate risk. Helgerson thinks their best approach should be to add additional money to the required annual contribution.

Comstock asked if there were any discussions to changing the formula from final pay to average pay. Helgerson stated there is nothing state-wide. That would take a legislative change. Helgerson stated there is a group of people putting together a proposed two-tiered pension system for down state which would be for new hires. The only thing that is currently down state is a possibility of capping the actuary increase to 10% in the next two years. There is evidently a gray area in the statute that if the pension fund collapses, the Village isn't liable. This is not the case in the fire pension. The police want to mirror the fire statute so they know that if the fund collapses, the court will decide who is going to pay it. Helgerson thinks this is valuable to the Village since they are bringing it up and asking for it. Helgerson said this is something they need to work with and not raise a major flag over. The Village knows that we are concerned with the funding level and he has reached out and is more than willing to work with them to come up with some alternatives. Comstock stated that something has to happen with the benefits, noting that they are pretty rich benefits. Helgerson stated the only way something could happen to the benefits is to hold a constitutional convention. It can't be constitutionally changed at the state level. We are looking at capping the defined benefit at 50% and then bringing on a defined contribution after that point with a match.

A motion was made by Doles and seconded by Comstock to request the Village levy \$916,506.00 for the Police Pension Fund for 2009 as per the actuarial report. Comstock questioned if this was a recommended amount or a minimum required amount. Helgerson and Walde explained that the contribution by a municipality has to be based on an actuarial account line and can be viewed as a minimum. Walde explained there could be two levies. The Department of Insurance makes one when we do our filing of the report for the year just ended. Unfortunately by the time we receive it, it is too late for the tax levy process. Helgerson explained that we bought into the private actuary which is believed to be more current. Comstock also asked how the 45% compares to other municipalities. Helgerson stated it would be on the low side. There was no further discussion.

Voice vote: unanimous ayes – motion carried.

A motion was made by Comstock and seconded by Doles to authorize payment of 50% or \$750.00 for the actuarial invoice. Voice vote: unanimous ayes – motion carried.

TREASURER'S REPORT:

Financial Statements for the Period Ending September 30, 2009

Balance Sheet:

The 9/30/2009 book value of assets reported was \$10,279,835.49. The equity market value adjustment was positive at \$160,349.15 while the unrealized year-to-date market adjustment in the fixed income portfolio was negative at \$24,119.43. The allocation of investments at market value is as follows: cash .5%, fixed income bonds 59.9%, equities 39.7%.

Income Statement:

Total YTD revenues were \$1,489,682.57. Of this amount, employer contributions were \$725,925.4 or 94.4% of budget. The employee contributions were \$156,931.43 or 40.2% of budget. Investment income was a gain of \$606,825.90 which includes the referenced equity market value adjustment.

Expenditures were \$120,187.73 or 40.3% of budget. Benefit payments were \$91,150.15 and reflect previously approved pension payments to Schinkel, Stone, Azarela, Weber, and Frasier. Administration expenses were \$29,037.58 or 41.5% of budget. Investment management's fees amounted to \$23,355.90 and the compliance fee, training, memberships, legal and other administrative expenses were \$5,681.78.

Distributed with the financial reports for the period ending September 30, 2009 was the 3rd Quarter 2009 Check Register, 3rd Quarter Bank Statements, 3rd Quarter Money Market Statements, Investment Confirmation, and Client statements for trade activity during the 3rd Quarter, correspondence from Ken Azarela, copy of Semiannual Report to Shareholders, copy of Letter from the chairman, and copy of Natixis funds/Gateway fund Portfolio Perspectives, June 30, 2009.

A motion was made by Comstock and seconded by Doles to approve the Treasurer's report through September 30, 2009. Voice vote: unanimous ayes – motion carried.

A motion was made by Doles and seconded by Comstock to approve the check register and the investment transactions from 7/1/09 – 9/30/09. Voice vote: unanimous ayes – motion carried.

APPROVE BILLS FOR PAYMENT:

There are no outstanding bills for payment.

REQUEST FOR BENEFITS:

There were no requests for benefits.

EXECUTIVE SESSION:

An executive session was not needed.

NEW BUSINESS:

Correspondence from Ken Azarela advised the board that he is moving to Kentucky and will not be able to complete his term of office. Doles advised that a Special Election was conducted to replace Ken on the board. Two ballots were returned by the deadline of October 20, 2009. Both votes were for Art Weber. Walde and Gerstmayr certified the results of the election.

An acknowledgement was received from Greystone & Becker that they have reviewed and understand our investment policy.

Helgerson invited Doles to update the pension board on the training classes he and Walker have been taking. Doles advised that he and Walker have attended three of the four training classes so far. He stated the classes were good and they have learned a lot. They have learned about disabilities, equities, and fixed income. Helgerson advised that a new law requires 16 hours of training per fiscal year. Weber will need to have 32 hours his first year. Helgerson suggested that Comstock submit his work training classes to Doles to see if it can meet the requirements.

OLD BUSINESS - CORPORATE BOND RESEARCH:

Mary Tomanek provided reports on the investment funds. Comstock questioned why Corporate Bonds come out of the equity pool and not out of fixed income. Helgerson confirmed that this is correct. Helgerson stated the fund has a 5% gap in the equity allocation. Should the gap be filled with equity allotment or with a corporate bond which will probably produce less return than the equity funds. We have about \$500,000.00 of new money that can be put into the equities to reach the 45% allocation. Comstock stated concern about the problem of 60% of our investments are in short term treasuries that are yielding 3% with a 7% bogey just to break even. We have a problem. Helgerson stated realistically, we should be looking at lowering our interest rate assumption to 6% even though the state is at 7%. We could only do that in ¼% increments. Helgerson is inclined to put the new money into the equity market even though Tomanek is a little hesitant. However for discussion purposes, if this is what we want to do, he would give Tomanek the option to allocate new investments based on our models. We would authorize her to spread the \$500,000 over the various mutual funds to match up with our parameters. Comstock agreed. Doles asked about the risks. Helgerson explained that the risks would be the downsize of the market just like last year.

Walde stated that the year-to-date performance of the total portfolio is up 6.15%. The equities are carrying the performance of 19.26%. Comstock advised his dislike in Gateway in that, by increasing our equities that would help us get out of the hole. If that happens, Gateway is not going to do very much for us. It is up 3%, whereas some of the other funds are up 35%. Comstock does not want to allocate any new money into Gateway. Helgerson agreed. It was agreed no new money into Gateway, but to defer to Tomanek for what she thinks is best.

A motion was made by Comstock and seconded by Doles to authorize the Treasurer to move up to \$500,000 in \$100,000 increments monthly to the equity portfolio/Greystone Consultants with no new money to go into the Gateway fund. There was no further discussion.

Voice vote: unanimous ayes – motion carried.

A motion was made by Comstock and seconded by Doles to have the Treasurer contact Mary Tomanek regarding reallocating some funds out of Gateway to the rest of the equity portfolio, up to 50%. If she agrees, then the authority is in place, if she doesn't agree, then nothing will happen. If she doesn't agree, then it can be revisited at the January meeting. There was no further discussion. Voice vote: unanimous ayes – motion carried.

NEXT QUARTERLY MEETING:

The next regular Police Pension Board meeting will be held on Wednesday, January 27, 2010 at 5:30 p.m. in the Police Department Conference Room of Village Hall.

ADJOURNMENT:

There being no further business, it was moved by Doles and seconded by Comstock to adjourn.
Voice vote: unanimous ayes – motion carried.

The meeting adjourned at 6:14 pm.



Secretary